

OWNING WHAT DOESN'T EXIST

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I.

To a teacher of intellectual property, it is fascinating to listen to a day of debate about a thing called "property" that everyone seems to agree is something that one can hold or hide or fence off. To teach *intellectual* property—to think seriously about intellectual property—you have to brush aside a vision of concrete, tangible things in which the possessor might be vested with a number of rights, the "bundle" of rights so dear to our discourses. And you have to step away from the marvelous vision that private ownership of property, and lots of it, is the very fundament of a democratic and free society, not because the vision is wrong—on the contrary, it has much to recommend it¹—but because, in teaching intellectual property, it is largely beside the point.

Intellectual property, as I like to tease and maybe even teach my students, might best be described as a system of rights in things that are not really there, which is why I often describe the proprietary rights that intellectual property rules vest as *owning what doesn't exist*. It is precisely because intellectual property involves rights in intangible things that it is so difficult to justify intellectual property rules with the same arguments used to justify a system of property rights in things that you can hold in your hand or hide from your neighbor or fence off.

There has been a great deal of discussion at this symposium about the libertarian as against the utilitarian as against the natural rights basis for property law. If you look at intellectual property rules, this debate becomes particularly puzzling and complex. Although I know Judge Easterbrook disagrees,² I believe that it is quite difficult to justify intellectual property rules on a libertarian model, whether an anarchist libertarian model or a shadow-government, night-watchman state model.

Thus the anarchist libertarian can think of property as a

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1. See Carter, *The Constitution, the Uniqueness Puzzle, and the Economic Conditions of Democracy*, 56 GEO. WASH. L. REV. 136 (1987).

2. See Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J.L. & PUB. POL'Y 109, 113 (1990).

thing that is out there to hold or hide or fence off. The night-watchman state of the shadow-government libertarian can permit some regulation to enable efficient exchange, both for *promise-keeping* and, as Richard Epstein pointed out in his paper, to *prevent third parties from interfering with advantageous relations* between people who want to exchange things that they would otherwise hold or hide or fence off.³

But the libertarian cannot easily explain government regulation of intellectual property. Even though intellectual property rules, like tangible property rules, might also exist to permit people to exchange their possessions more efficiently, one needs a rather intrusive regulatory regime to enforce them. The government must make a series of fine and subtle distinctions about what to protect.⁴ We have an enormously complex system of rules to sort out which gains a creator may appropriate from which creations, and I am not sure that is possible to devise a simple rule—a night-watchman state rule—that would do it. I think you would find that most of those who write on intellectual property today justify the rules either on the moral ground that each of us possesses a natural right to control what we create or on the utilitarian ground that absent regulation, there will be no optimal supply of intellectual creations.

In this brief presentation, I will not try to give the natural rights argument the full treatment that it deserves, except to note my fear that the natural rights approach ultimately leads to such elitist and despotic doctrines as “moral right,” lately incorporated by the Congress (to an extent that the courts will ultimately have to tell us, because the Congress has fudged the point) in American law.⁵ The moral right doctrine says that once an artist has sold a portrait to a collector, the artist can keep the collector from painting a mustache on it for private pleasure, or that once a filmmaker has sold the rights to a black-and-white motion picture, the filmmaker can keep the

3. See Epstein, *Property and Necessity*, 13 HARV. J.L. & PUB. POL’Y 2, 5-6 (1990). See generally Symposium: *Time, Property Rights and the Common Law: Round Table Discussion*, 64 WASH. U.L.Q. 793, 793-800 (1986).

4. In the particular case of patent law, it is difficult for the libertarian to explain why the fact that A, in the privacy of her own basement, thinks of an idea first and obtains a certificate from the government, should prevent B, in the privacy of his own basement, from using the same idea, provided that B thinks of it independently.

5. See Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988).

owner from adding color for further profit.⁶

Now, don't misunderstand me—I am not in favor of the defacing of paintings or the colorization of black-and-white films. I consider those acts uncultured. But you cannot legislate culture. What the moral right doctrine really says is that the owners of these things—a painting, for example, or a motion picture—should not have the right to do with their possessions as they wish.⁷ Under some versions of the moral right doctrine, the owner cannot purchase the creator's moral rights, even if the creator wants to sell them, because the rights are inalienable. The painter cannot sell the right to approve any changes in the painting. The filmmaker cannot sell the right to veto changes in the film.

The idea that the government should enable the artist to forbid the owner's acts, or, as some suggest, should make the artist's right to forbid inalienable, is worse than uncultured. It is classic special-interest legislation, regulating the ability of an owner to do with her property as she likes, not so much for the benefit of artists or filmmakers as such, but for the benefit of a minority who will feel better knowing that the owner is not allowed to act in an uncultured way.⁸

But I said that I would skip the natural rights argument. I want to discuss the utilitarian argument, which in my view subsumes the various aspects of the efficiency argument.⁹

My claim, which I will sketch here with very light strokes, is that the utilitarian argument can justify in a fairly straightforward way nationwide federal protection of patents and copyrights but has trouble justifying much more trademark regulation than is offered by the common law of unfair competition, which predated federal trademark protection and continues to co-exist with it.¹⁰ I am not arguing against federal

6. For an amusing romp along the contours of the moral right doctrine, see Merriam, *The Refrigerator of Bernard Buffet*, 27 HASTINGS L.J. 1023 (1976).

7. For an admittedly jocular suggestion that moral right legislation might be unconstitutional, see Carter, *Flags and Films: Freedom to Desecrate*, Legal Times, Oct. 2, 1989, at 31, col. 1.

8. If moral right legislation really is for the benefit of a small minority rather than the general public (which might want to see the colorized version), it might run afoul of Cass Sunstein's proposed prohibition on legislation that is not public-regarding. See, Sunstein, *Naked Preferences and the Constitution*, 84 COLUM. L. REV. 1689 (1984).

9. For a valiant but unsuccessful effort to separate the two, see R. POSNER, *THE ECONOMICS OF JUSTICE* (1981).

10. For a more detailed explication of this argument, see Carter, *The Trouble With Trademark*, 99 YALE L.J. 759 (1990).

trademark law, but I do want to note how some of the distinctions between patents and copyrights on the one hand, and trademarks on the other, make the case for nationwide protection stronger for patents and copyrights, and weaker for trademarks. These distinctions might help explain why the Constitution expressly empowers the Congress to create uniform rules for patents and copyrights but makes no mention of trademarks.¹¹ The Founders evidently did not expect nationwide trademark protection under federal government control, and perhaps here, as in so many other instances, they were on to something.¹²

II.

The utilitarian arguments for both patents and copyrights are well understood. Patents and copyrights grant rights in intangible creations of the mind. These intellectual creations are public goods. They are *non-excludable*, in the sense that once they are brought forth from the mind, they can generally be taken by a second user at a cost close to zero, and they are subject to *non-rivalrous consumption*, in the sense that one user's use of the idea does not reduce the value of the idea to another who wishes to use it.

All of this makes it nearly impossible for the originator of the thing to appropriate the gains at reasonable cost. Thus, without a means of providing a return to the originator, there will be a less than optimal supply.¹³ There are essentially two ways of providing a return. One of these is a subsidy, a direct payment to the originator.¹⁴ The second possibility is regulation, gov-

11. See U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."); cf. Trade-Mark Cases, 100 U.S. 82 (1879) (holding that because federal trademark law must rest on the Commerce Clause, it may reach only trademarks used in interstate commerce).

12. Although the term "unfair competition" did not occur in Anglo-American jurisprudence until 1803, see *Hogg v. Kirby*, 32 Eng. Rep. 336 (1803), the idea that goods might be distinguished by a mark placed upon them by the maker was a much older one and was certainly well known by 1789. The leading early case is *Blanchard v. Hill*, 2 Atk. 484 (Ch. 1742).

13. Unfortunately, nothing in the utilitarian argument can determine what supply is optimal. See Priest, *What Economists Can Tell Lawyers About Intellectual Property: Comment on Cheung*, 8 RES. L. & ECON. 19 (1986).

14. Before the invention of the printing press, subsidy was in fact the principal means for compensating the creator of a literary work. A fascinating dip into this history is H. RANSOM, *THE FIRST COPYRIGHT STATUTE* 17-53 (1956).

ernment intervention in which the state uses its authority to prohibit others from taking part of the gains.

To say that this is all well-known is not to say that there are no hard cases. For example, what items are among those that without regulations will exist only in less-than-optimal supply? Do animal life forms that might be created in the laboratory count?¹⁵ Does computer software count?¹⁶ And if computer software does need protection, lest it be undersupplied, one must decide which aspects of software count as the proper subjects of protection. How it works? How it looks? How the user interacts with it? These are all matters of current debate, and the answers are hardly clear.¹⁷ The hard cases, however, are at the margins. The rules themselves are clear, even if the consequences of the well-known theory are not always fully understood by government regulators.

For example, I was recently involved in a case challenging a tax assessment in which a city sought to tax the full value of computer software under a statute that theretofore had been used only to tax tangible personal property.¹⁸ Evidently, the city's theory was that once a copy of the software is embodied somewhere—for example, on a disk—the program itself becomes tangible, even though every court that had taken a position had held software to be intangible rather than tangible property. The assessor said in effect, "There is the disk, it is tangible, and therefore, the full value of the software is taxable as tangible personal property."

Were things so simple we would not need the elaborate structure of rules that we have to govern intellectual property. But the embodiment of software on a disk changes nothing. If you transfer the disk, you transfer the entire idea, because unless the law prevents it, the transferee now possesses the same freedom to exploit the software that the creator does. So you still cannot make a profit on the software without the rules that are necessitated by its intangible character. Put otherwise, if the

15. See Note, *Altering Nature's Blueprints for Profit: Patenting Multicellular Animals*, 74 VA. L. REV. 1327 (1988).

16. See generally Menell, *Tailoring Legal Protection for Computer Software*, 39 STAN. L. REV. 1329 (1987).

17. Compare Russo & Derwin, *Copyright in the "Look and Feel" of Computer Software*, COMPUTER LAW., Feb. 1985, at 1, with Samuelson, *Why the Look and Feel of Software User Interfaces Should Not Be Protected by Copyright Law*, 32 COMM. ACM 563 (1989).

18. See *Northeast Datacom, Inc. v. Wallingford*, 212 Conn. 639, 563 A.2d 688 (1989).

act of embodying a copy of the software on a disk means that the software is thereafter subject to protection under the rules governing tangible personal property, there will still be a less-than-optimal supply.

To make a long story short, the rules generated by the utilitarian argument are often hard to apply and are sometimes misapplied even in easy cases. Still, the rules are fairly clear, especially now that Congress has rewritten its copyright and trademark acts and altered substantial portions of its patent act.¹⁹ The utilitarian argument itself, however, is fairly controversial, and many of its implications are weakly understood. An example of this misunderstanding is the common claim—indeed, it is practically an axiom of intellectual property law—that patents and copyrights are monopolies.

If monopoly is defined as any right to exclude, the claim is unexceptionable. But it is also irrelevant. For as Judge Easterbrook has argued here,²⁰ and Professor Kitch has argued elsewhere,²¹ what matters is not exclusivity-type monopoly as such, but rather the *function* of the intellectual property rights in the market. That is, what matters is what the owner of the rights can do with them.

As Professor Kitch has shown, market pressures will often make it difficult for patent owners to extract monopoly rents.²² Demand is likely to be highly elastic because of the availability of substitutes for the patented invention, especially when the invention is trying to find its niche in the market. And as the patent term nears its end, not only will fresh substitute technologies likely be available, but competitors will be gearing up to undercut the patentee's prices.

The same is if anything truer of copyrights. Demand for *particular* books is likely to be quite elastic because there are lots of substitutes. For example, in a book market where hardcover fiction tops out around twenty-five dollars, even a very fine literary work will have trouble finding a niche at fifty dollars or

19. See Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988) (copyright); Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988) (trademark); Process Patent Amendment Act of 1988, Pub. L. No. 100-418, §§ 9001-07, 102 Stat. 1563 (1988) (patent).

20. See Easterbrook, *supra* note 2.

21. See Kitch, *Patents: Monopolies or Property Rights?*, 8 RES. L. & ECON. 31 (1986).

22. See *id.*

seventy-five dollars. Thus copyrights, like patents, are not necessarily monopolies in any market power sense.

In short, aside from some problems at the margins, I think that the patent and copyright systems are easy to understand and straightforward to justify, at least from the utilitarian perspective.

III.

Trademark law is different. There is no such animal as a less-than-optimal supply of trademarks. The reason for protecting trademarks is not that we think it is great when individuals think of new ideas for little symbols and words to describe their products. A trademark identifies the maker of a good, and trademarks are protected for the identifying function that they serve in the market. A trademark is a convenient way of giving the person searching in the market a great deal of information in a very small package. Trademarks are protected because they lower consumer search costs, enabling people to make quicker, cheaper decisions about what they want to buy.²³

This theory is fairly well understood. What is often misunderstood is that all that this argument can clearly justify is the common-law system of trademark protection that existed prior to 1946.²⁴ To win a trademark case under the common-law system, you brought an action for unfair competition. This required a showing that a competitor, by copying the mark used to distinguish your goods in the market, was diverting customers that would otherwise have come to you.²⁵ Since the enactment of the Lanham Act in 1946,²⁶ however, federal registration of a trademark has provided nationwide rights even in markets that the registrant might never enter and where the mark means nothing at all.

The courts don't like this doctrine and, although they have been criticized for it, have refused to apply the Act literally. Instead, the courts have followed the common-law model, extending trademark protection only in the markets that the

23. For a more extensive presentation of this justification for trademarks, see Landes & Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265 (1987).

24. The following argument is adapted from Carter, *supra* note 10.

25. See, e.g., *Mosler Safe Co. v. Ely-Norris Safe Co.*, 273 U.S. 132 (1927); *American Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281 (6th Cir. 1900).

26. Trademark Act of 1946, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051-1127 (1988)).

registrant has actually entered.²⁷ This approach makes perfect sense so long as you believe that the function of trademarks is to provide information in the market. Others are free to use the mark in markets that the registrant has never entered because the other users will not be misleading: The mark means nothing to consumers in those markets.

Nevertheless, we just recently dodged a bullet—the Congress last year nearly enacted the Senate’s version of the Trademark Law Revision Act. The version of the Revision Act finally adopted is bad enough because it allows application for registration of a mark that has never been used and allows some rights—*de facto* if not *de jure*—to follow upon application rather than awaiting registration.²⁸ It does not, however, grant any formal right for an applicant to prevent someone from using the mark in question until the applicant has used it too. (The Senate’s version would on a fair interpretation have allowed some formal, substantive rights in marks that had never been used.)

My goal, however, is not to argue the merits of the Revision Act, but rather to point out that there is a substantial cost to a nationwide system of trademark protection. Other people who may independently select your registered mark are forbidden to use it, even if it signifies to consumers only their goods and not your goods. This prohibition is not a problem if one mark is as good as another, but as anyone involved in the marketing of goods can tell you, some marks are better than others. Substantial work goes into determining which mark will work best to sell which good. Naturally, no one wants to be stuck with an inferior mark. If superior marks are a finite set, however, then the more marks we allow to be taken out of the available language, even when they mean nothing to consumers, the greater the barriers to entry that we are erecting against other firms that want to get into the same business.²⁹

I do not claim that there are no arguments in favor of a nationwide system of trademark registration. It provides a central

27. The leading post-Lanham Act case is *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959). For the common-law approach, see, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916).

28. See Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988). For a discussion of the *de facto* rights created on registration, see Carter, *supra* note 10, at 781-87.

29. See Carter, *supra* note 10, at 768-75.

register on which marks may be registered and that someone considering using a mark can search. It puts us in compliance with various international agreements,³⁰ helps international trade,³¹ and facilitates the development of national markets.³² My only claim is that there are considerable costs to a system that removes from the language marks that mean nothing to anyone in markets where they are not being used.

The short of it is that trademark is different from patent and copyright. Though the case for patent and copyright on a national level is fairly clear, the case for trademark is less clear, even somewhat shaky. One might decide on balance that nationwide trademark protection is a good thing, and within certain limits, I incline that way myself. But only within certain limits, and I confess that many aspects of nationwide protection leave me uneasy. On the other hand, perhaps a degree of uneasiness is inevitable; we are talking, after all, about owning what doesn't exist.

30. See S. REP. NO. 515, 100th Cong., 2d Sess. 7-8, *reprinted in* 1988 U.S. CODE CONG. & ADMIN. NEWS 5577, 5583-84.

31. See *id.* at 5, 1988 U.S. CODE CONG. & ADMIN. NEWS at 5581.

32. See DeConcini, *The Trademark Law Revision Act*, 78 TRADEMARK REP. 382 (1988).